

Question: What is the need for a partnership deed?

Answer: A partnership deed is necessary as it outlines the terms and conditions agreed upon by the partners, including profit-sharing ratios, division of profits and losses, interest on capital and drawings, and the rights and duties of partners.

Question: How is goodwill calculated under the Average Profit Method?

Answer: Under the Average Profit Method, goodwill is calculated by taking the average of the profits of past years and multiplying it by the number of years' purchase.

Question: What is the Revaluation Account?

Answer: The Revaluation Account is a temporary account used to record the increase or decrease in the value of assets and liabilities at the time of admission, retirement, or death of a partner.

Question: How is the cash flow from operating activities calculated?

Answer: Cash flow from operating activities can be calculated using the indirect method, which starts with net income and adjusts for non-cash items, changes in working capital, and other operating activities.

Question: What is meant by the issue of shares at a premium?

Answer: Issuing shares at a premium means that the shares are issued at a price higher than their face value, and the excess amount is credited to the Securities Premium Reserve.

Question: How is the dividend proposed to equity shareholders recorded in the Balance Sheet?

Answer: The dividend proposed to equity shareholders is recorded as a current liability in the Balance Sheet under the head "Other Current Liabilities."

Question: What is the purpose of preparing a Cash Flow Statement?

Answer: The purpose of preparing a Cash Flow Statement is to provide information about the cash receipts and payments of an enterprise during an accounting period.

Question: What is the treatment of deferred revenue expenditure while preparing a Cash Flow Statement?

Answer: Deferred revenue expenditure is treated as an outflow under investing activities when it is initially incurred and is not included in the cash flow from operating activities.

Question: How is the interest on debentures accounted for in the financial statements?

Answer: Interest on debentures is recorded as an expense in the Profit and Loss Account and the corresponding liability for the outstanding interest is shown in the Balance Sheet.

Question: What is the difference between the Authorized Capital and Issued Capital of a company?

Answer: Authorized Capital is the maximum amount of capital that a company can issue as per its Memorandum of Association, whereas Issued Capital is the part of the authorized capital that has been offered to the public for subscription.

Question: How is the redemption of debentures accounted for in the financial statements?

Answer: The redemption of debentures is accounted for by transferring the necessary amount from the Profit and Loss Appropriation Account to the Debenture Redemption Reserve, as per the Companies Act, and by recording the actual payment to debenture holders in the books.

Question: What is the significance of the Profit and Loss Appropriation Account?

Answer: The Profit and Loss Appropriation Account is significant as it shows how the net profit of a partnership firm is appropriated among partners after considering items like interest on capital, salary to partners, commission, and the division of the remaining profit among partners.

Question: How is the accumulated depreciation treated while preparing a Cash Flow Statement?

Answer: Accumulated depreciation is not a cash flow item and is adjusted against the depreciation expense in the Profit and Loss Account when preparing a Cash Flow Statement.

Question: What is the purpose of the Securities Premium Reserve?

Answer: The purpose of the Securities Premium Reserve is to provide a cushion for the company and can be used to write off capital losses, issue bonus shares, or write off the preliminary expenses of the company.

Question: How is the issue of shares at a discount treated in the financial statements?

Answer: Issuing shares at a discount is not allowed as per the Companies Act, and if it happens, it is treated as a loss to the company and is written off against the Securities Premium Reserve or Profit and Loss Account.

Question: What is the difference between a fixed asset and a current asset?

Answer: A fixed asset is held for the long term use in the business and is not expected to be converted into cash within one year, whereas a current asset is expected to be converted into cash or consumed within one year.

Question: How is the profit on sale of fixed assets treated in the financial statements?

Answer: Profit on the sale of fixed assets is recorded in the Profit and Loss Account as an other income and the asset's carrying amount is removed from the Balance Sheet.

Question: What is the purpose of preparing a funds flow statement?

Answer: The purpose of preparing a funds flow statement is to analyze the flow of funds between fixed assets and net working capital and to identify the sources and application of funds.

Question: How is the retirement of a partner accounted for in the books of the firm?

Answer: The retirement of a partner is accounted for by revaluating assets and liabilities, adjusting the retiring partner's capital account, and settling the dues with the remaining partners.

Question: What is the treatment of the deceased partner's share of profit up to the date of death?

Answer: The deceased partner's share of profit up to the date of death is calculated based on the partnership deed and the profit-sharing ratio, and it is transferred to the deceased partner's executor's account.

Question: How is the issue of bonus shares treated in the financial statements?

Answer: The issue of bonus shares is treated by transferring the amount from the reserves to the share capital account, without any cash transaction, and by adjusting the reserves and share capital in the Balance Sheet.

Question: What is the difference between a debenture and a share?

Answer: A debenture is a debt instrument that represents a company's obligation to pay back the funds with interest, while a share represents ownership in the company and entitles the holder to a share of the profits.

Question: How is the interest on calls-in-arrears treated in the financial statements?

Answer: Interest on calls-in-arrears is treated as an expense in the financial statements and is charged to the defaulting shareholders.

Question: What is the purpose of the Debenture Redemption Reserve?

Answer: The purpose of the Debenture Redemption Reserve is to ensure that the company has sufficient funds to redeem its debentures by requiring the creation of a reserve equivalent to a certain percentage of the debentures issued.